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State Income Inequality Continued to Grow in Most States in the 1990s, Despite Economic Growth and Tight Labor Markets

Income Gaps Between High and Low-Income Families Widened in 46 States Since the Late 1970s

Washington, D.C. — Despite the strong economic growth and tight labor markets of recent years, income disparities in most states are significantly greater in the late 1990s than they were during the 1980s, according to a new analysis by the **Center on Budget and Policy Priorities** and the **Economic Policy Institute**. In two-thirds of the states, the gap in incomes between the top 20 percent of families and the bottom 20 percent of families grew between the late 1980s and the late 1990s. In three-fourths of the states, income gaps between the top fifth and middle fifth of families grew over the last decade, according to the report. By contrast, inequality declined significantly in only three states.

Over the longer term, the report found that income disparities between high- and low-income families increased in all but four states. The report also found that in 45 states, the gap between the average incomes of middle-income families and of the richest 20 percent of families expanded between the late 1970s and the late 1990s.

Pulling Apart: A State-by-State Analysis of Income Trends uses the latest Census Bureau data to measure pre-tax changes in real incomes among high-, middle- and low-income families in each of the fifty states at similar points in the business cycle — from the late 1970s to the late 1980s and from then until recently.

Key findings of the report include the following:

- For the U.S. as a whole in the late 1990s, the average income of families in the top 20 percent of the income distribution was \$137,500, or **more than 10 times** as large as the poorest 20 percent of families, which had an average income of \$13,000. In nine states — New York, Arizona, New Mexico, Louisiana, California, Rhode Island, Texas, Oregon and Kentucky — the average income of the richest fifth of families was **more than eleven times** as great as the average income of the bottom fifth of families.
- From the late 1970s to the late 1990s, in every state but three the incomes of families in the top 20 percent of the income distribution have grown, with average growth exceeding \$34,000 (in 1997 dollars) after adjustment for inflation. In 31 states, the incomes of the upper fifth of families jumped by more than 30 percent over the past two decades.

- Incomes of the **poorest fifth** of families declined in 18 states between the late 1970s and the late 1990s. In some states, the decline was very steep. In six states, the average income of the bottom fifth of families declined by more than \$2,000 (per family, in 1997 dollars): Wyoming (-\$5,600); Arizona (-\$3,900); New York (-\$2,900); California (-\$2,900); New Mexico (-\$2,400); and West Virginia (-\$2,200).
- In eleven large states, income increases for the **top five percent** of families ranged from 35 percent (in Texas) to 75 percent (in Pennsylvania). By contrast, the incomes of the **bottom fifth** of families either declined or grew very little between the late 1970s and late 1990s in ten of these eleven states. For example, the highest-income five percent of New York families gained nearly \$108,000 per family, while the lowest-income 20 percent of New Yorkers lost \$2,900 per family.

“The report shows that with few exceptions economic growth in the fifty states has not been broadly shared,” said Jared Bernstein of EPI, co-author of the report. “The strong economic growth in the U.S. results from the contributions of people in all walks of life, from laborers to corporate executives. The fact that many families are not sharing in the resulting prosperity stands as our nation’s most serious economic problem.”

Income Disparities Continued to Grow in the 1990s

Over the 1990s, the average real income of high-income families grew by 15 percent, while average income remained the same for the lowest-income families and grew by less than two percent for middle-income families — not enough to make up for the decline in income during the previous decade.

In two-thirds of the states, the gap in incomes between the lowest-income and the highest-income families grew over the last decade. The gap between low- and high-income families declined significantly in only three states — Alaska, Louisiana, and Tennessee.

The states with the widest income gaps and the states in which disparities between high- and low-income families and high- and middle-income families grew the most over the time periods considered in the report are shown in Table A of this release.

Causes of Rising Inequality

The report notes that several factors have contributed to the large and growing income gaps in most states. The growth of *income* inequality is primarily due to the growth in *wage* inequality. Wages at the bottom and middle of the wage scale have only recently grown after having stagnated or declined for nearly two decades. The wages of the very highest paid employees, however, have grown significantly. Factors generally identified as contributing to increasing wage inequality include globalization, the decline of manufacturing jobs and the expansion of low-wage service jobs, immigration, the lower real value of the minimum wage, and fewer and weaker unions.

In the last few years, persistent low unemployment and increases in the minimum wage have fueled wage gains at the bottom. As a result, there has been a lessening of wage inequality between the bottom and the top, although the gap between middle- and high-wage workers continues to grow. The recent wage growth for low-wage workers has, however, been far from sufficient to counteract the two-decade long pattern of stagnant or declining incomes.

States Can Choose a Different Course

Government at all levels has an important role to play in pushing back against the growth of income inequality. The role of state governments, in particular, has been increasing.

“As the administration and financing of government programs continue to be shifted from the federal to the state level, state policy-makers must be prepared to shoulder additional responsibilities for pushing back against growing income inequality,” said Liz McNichol of CBPP, co-author of the report. “They have the resources to do so, thanks to the current economic expansion producing booming revenues. The question is whether they have the will to do so.”

Through policies such as raising the minimum wage, strengthening unemployment insurance, implementing a wide range of supports for low-income working families, and reforming regressive state tax systems, state and federal lawmakers can help moderate the growing income divide.

About the Data in the Report

The report is based on an original analysis of before-tax income for families recorded by the Census Bureau’s March Current Population Survey. The analysis compares “pooled” data from the three most recent years available — 1996, 1997 and 1998 — to similarly pooled data from the late 1970s and late 1980s. Using pooled data rather than data collected within a single year enlarges the sample size, thus increasing precision. The three periods compared reflect similar stages in the economic cycle. All figures in this report are adjusted for inflation and are expressed in 1997 dollars.

An analysis of the average income of the top five percent of families was also conducted for eleven large states: California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania and Texas. They are the only states with sufficient observations in the Current Population Survey to allow the calculation of reliable estimates of the average income of the top five percent of families.

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

The Economic Policy Institute is a nonprofit, nonpartisan think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy.

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Table A

Ten States where Income Inequality Between the Top and the Bottom Was Greatest, 1996-98	Ten States where Income Inequality Between the Top and the Middle was Greatest, 1996-98
New York Arizona New Mexico Louisiana California Rhode Island Texas Oregon Kentucky Virginia	Arizona New Mexico New York Oregon Texas California South Dakota Rhode Island Florida Kansas
Ten States where Income Inequality Between the Top and the Bottom Grew Most, 1970s - 1990s	Ten States where Income Inequality Between the Top and the Middle Grew Most, 1970s - 1990s
New York Arizona Rhode Island Oregon California New Mexico West Virginia Kentucky Connecticut Kansas	Arizona Oregon Rhode Island Kansas New York West Virginia California South Dakota New Mexico Kentucky
Ten States where Income Inequality Between the Top and the Bottom Grew Most, 1980s - 1990s	Ten States where Income Inequality Between the Top and the Middle Grew Most, 1980s - 1990s
Rhode Island Oregon Arizona New York Connecticut Kansas New Mexico Washington California Montana	Arizona Oregon South Dakota Rhode Island Kansas New York Connecticut New Hampshire Nevada Maryland

**Pulling Apart: A State-by-State Analysis of Income Trends
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